

PUBLIC DISCLOSURE

JULY 15, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

SALEM ITALIAN-AMERICAN CREDIT UNION

**24 ENDICOTT STREET
SALEM, MASSACHUSETTS 01970**

**DIVISION OF BANKS
ONE SOUTH STATION
BOSTON, MA 02110**

NOTE:	This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this financial institution.
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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires the Division of Banks (Division) to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the needs of its entire assessment area, including low and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the Division must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Salem Italian-American Credit Union** prepared by the Massachusetts Division of Banks, the institution's supervisory agency.

INSTITUTION'S CRA RATING: This institution is rated "Satisfactory."

A CRA rating of "Satisfactory" is assigned. An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire assessment area, including low and moderate-income individuals, in a manner consistent with its resources and capabilities.

The credit union's average net loan-to-share for the previous four semi-annual periods is 67.7 percent and meets the standards for satisfactory performance at this time.

Lending within the assessment area is considered to meet the standards of satisfactory performance.

An analysis of a sample of the credit union's consumer loans by borrower income revealed that 41.2 percent of loan originations was granted to low-income members and 17.6 percent was granted to moderate-income members. This criterion was found to be satisfactory.

The credit union's fair lending performance is also considered to meet the standards of satisfactory performance.

PERFORMANCE CONTEXT

Description of Institution

Salem Italian-American Credit Union is a state-chartered institution headquartered in Salem, Massachusetts at 24 Endicott Street. The credit union was established to promote thrift among its members and the loaning of such savings to its membership. Salem Italian-American Credit Union is member oriented and is committed to ascertain and meet the credit needs of all its members.

As of June 30, 2002, the institution had total assets of \$1.1 million with total loans representing \$501,000 or 45.5 percent of total assets. The credit union is predominantly a consumer lender with used automobile loans accounting for 44.3 percent of the credit union's loan portfolio, followed by share secured loans of 23.9 percent. The credit union does not originate residential mortgage loans.

The following table depicts the composition of the credit union's loan portfolio based on the NCUA 5300 Report of Condition.

LOAN PORTFOLIO as of 6/30/02		
Loan Type	Dollar Amount (000s)	% of Total Loans
Used Auto	227	44.3
Share Secured	122	23.9
Personal Unsecured	78	15.3
New Auto	69	13.5
Home Improvements	9	1.8
Single Payment	6	1.2
Total	511	100%

Source: 6/30/02 5300 Call Report

There appears to be no significant financial or legal impediments which would limit the credit union's ability to meet the credit needs of its assessment area other than its small asset size and limited resources.

The credit union was last examined for compliance with the Community Reinvestment Act by the Division of Banks on September 23, 1998. That examination resulted in a "Satisfactory" rating.

DESCRIPTION OF ASSESSMENT AREA

The Salem Italian-American Credit Union has defined its assessment area as the City of Salem pursuant to the provisions outlined within the credit union's by-laws which state "Membership in this credit union is limited to those who are of Italian origin, residing or working in the City of Salem, members of their immediate family, and such other persons who are members of Italian lodges and societies located in the City of Salem." The credit union currently has 349 members.

The City of Salem has a total of eight census tracts. Two of these census tracts are designated as low and moderate income, respectively. The remaining census tracts are designated as middle-income.

According to 1990 U.S. census data, the City of Salem has a total population of 38,091. Minorities account for 9.8 percent of the total population. The 1990 census data further indicates that owner-occupied housing units within the city account for 46.0 percent of the 7,275 occupied units.

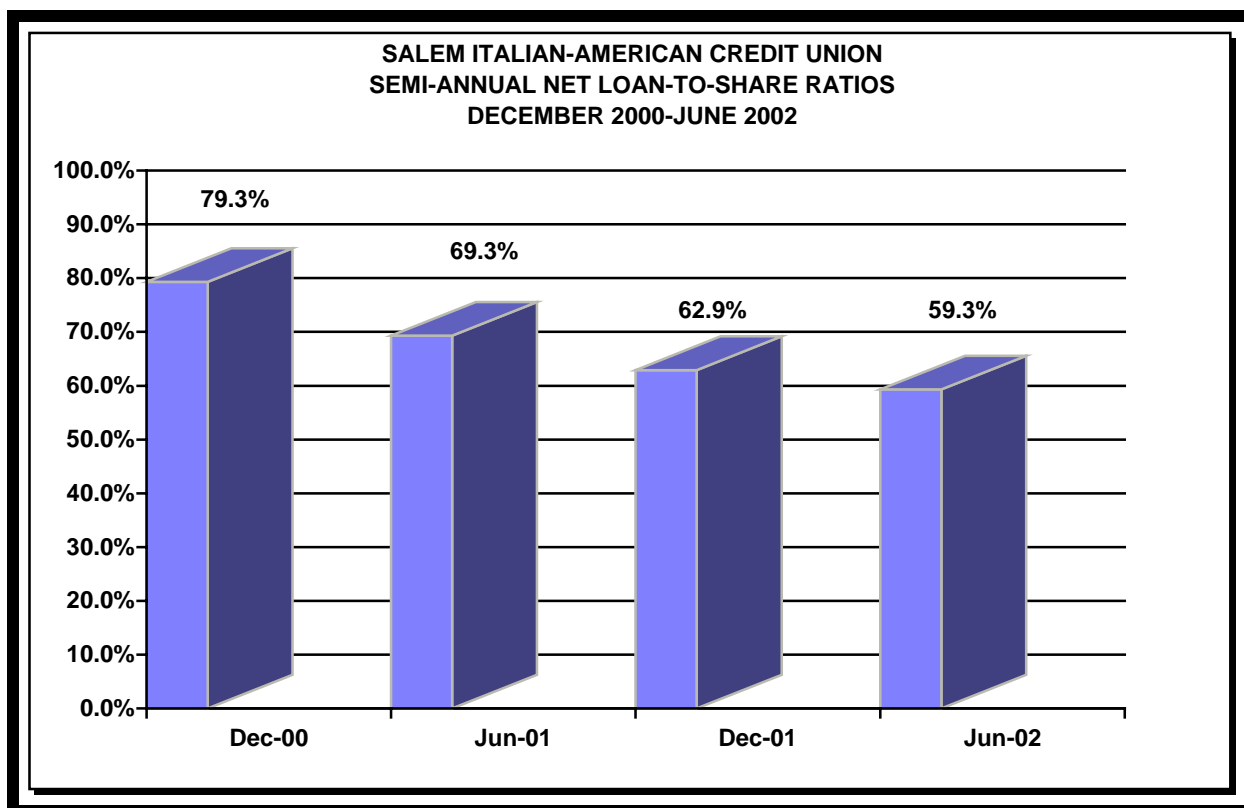
PERFORMANCE CRITERIA

1. LOAN TO SHARE ANALYSIS

An analysis of Salem Italian-American Credit Union's net loan to share ratio was performed during the examination. The calculation incorporated the latest four semi-annual periods utilizing the total net loan to total share figures from the NCUA 5300 reports. This review included the periods ending December 31, 2000, through June 30, 2002.

The institution's average net loan to share ratio during this period was determined to be 67.7 percent, which is good given the credit union's asset size, resources, competition, lending strategy and the credit needs of its assessment area.

The following graph illustrates the loan to share trends.



Source: NCUA Call Reports

The net loan-to-share ratio appears to be good given the credit union's scope of operation. Management has stated that the declining trend for the examination period is attributable to the rising interest rates and deposit accounts outpacing loan accounts.

Based on the above information and Salem Italian-American Credit Union's capacity to lend, its asset size, limited resources and financial condition, the credit union's loan to share ratio meets the standards for satisfactory performance.

2. COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE OF THE ASSESSMENT AREA(S)

The credit union granted 74 consumer loans in 1999, 66 in 2000, 62 in 2001 and 27 as of year-to-date July 15, 2002, totaling 229 loans for the current examination period. A sample of 55 consumer loans was reviewed to determine the proportion of loans within the assessment area by number of originations and dollar amount.

A total of 34 loans representing 61.8 percent of originations were granted in the City of Salem. The dollar volume of these loans represented 48.2 percent of the total dollar amount of the loan sample. Refer to the table below.

Distribution of Consumer Loans Inside and Outside of the Assessment Area										
Year	Number of Loans					Dollars in Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
1999	11	73.3	4	26.7	15	50	50.0	50	50.0	100
2000	8	53.3	7	46.7	15	74	54.4	62	45.6	136
2001	10	66.7	5	33.3	15	61	45.9	72	54.1	133
Y-T-D 2002	5	50.0	5	50.0	10	20	35.7	36	64.3	56
Total	34	61.8	21	38.2	55	205	48.2	220	51.8	425

Source: In-house records

Salem Italian-American Credit Union's loan distribution inside and outside of the assessment area reflects an acceptable dispersion of consumer lending. Thus, the institution's meets the standards for satisfactory performance.

3. LENDING TO BORROWERS OF DIFFERENT INCOMES

An analysis of the sample of consumer loans extended within the credit union's assessment area, among various income levels was conducted. Originations were categorized by the ratio of the applicant's reported incomes to the 1999, 2000, 2001, and 2002 estimated median family incomes of the Boston Metropolitan Statistical Area (MSA). The median family incomes for the Boston MSA were \$62,700 for 1999, \$65,500 for 2000, \$70,000 for 2001 and \$74,200 for 2002. Income figures were based on estimated 1999, 2000, 2001 and 2002 data from the Department of Housing and Urban Development (HUD).

Low income is defined by the US Census Bureau as income below 50 percent of the median family income level for the MSA. Moderate income is defined as 50 to 79 percent of the median family income. Middle income is defined as income between 80 and 119 percent of the median family income. Upper income is defined as income greater than 120 percent of the median family income.

The table below indicates that 14 loans or 41.2 percent of the credit union's consumer loans were granted to low-income borrowers and 17.6 percent were granted to moderate-income borrowers.

Refer to the following table for additional information.

Consumer Loan Originations by Income of Borrower by Number										
Median Family Income Level	1999		2000		2001		Y-T-D 2002		Total	
	#	%	#	%	#	%	#	%	#	%
Low	3	27.3	2	25.0	5	50.0	4	80.0	14	41.2
Moderate	1	9.1	2	25.0	2	20.0	1	20.0	6	17.6
Middle	6	54.5	4	50.0	2	20.0	0	0.0	12	35.3
Upper	1	9.1	0	0.0	1	10.0	0	0.0	2	5.9
Total	11	100%	8	100%	10	100%	5	100%	34	100%

Source: U.S. Census, In-house records

It should be stated that consumer loans typically consider the income of only one borrower. Therefore, the percentage of loans to low and moderate income borrowers is higher than that of residential mortgage originations, where the income is usually the result of joint incomes.

Given its asset size and limited resources, the credit union has shown a willingness to lend to members of low and moderate income as evidenced by the dispersion of loans among individuals of different income levels. The credit union, thus, meets the standards for satisfactory performance.

4. GEOGRAPHIC DISTRIBUTION OF LOANS

Since the credit union's lending activity includes only consumer based lending products, the geographic data needed to ascertain census tract penetration was not available. Thus, the analysis for this criterion was not completed.

5. REVIEW OF COMPLAINTS/ FAIR LENDING POLICIES AND PRACTICES

Salem Italian-American Credit Union has not received any complaints related to its CRA performance since the previous examination. However, the credit union has procedures in place should any consumer complaints related to CRA be received.

Fair Lending Policies and Practices

The credit union's small size, restricted resources and financial situation limit its ability to meet the requirements of the Division's fair lending policy. The credit union's staff training is adequate. However, outreach, marketing, credit products and underwriting standards are directly affected by resources and limited product offerings. The institution has developed a second review process in which all loans considered for denial are referred to the Security Committee by the loan officer prior to issuing a written notice of denial. Based on the foregoing information, the credit union meets the standards for satisfactory performance in this category.

THE COMMONWEALTH OF MASSACHUSETTS

To the COMMISSIONER OF BANKS:

THIS IS TO CERTIFY, that the report of examination of the

SALEM ITALIAN-AMERICAN CREDIT UNION

for compliance with applicable consumer and fair lending rules and regulations and the Community Reinvestment Act (CRA), as of the close of business **JULY 15, 2002**, has been read to or by the undersigned and the matters referred to therein will have our immediate attention.

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A majority of the Board of Directors/Trustees

Dated at _____ this _____ day of _____ 20 ____

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each assessment area;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks, at "(Address at main office)".

[Please Note: If the institution has more than one local community, each office (other than off-premises electronic deposit facilities) in that community shall also include the address of the designated office for that assessment area.]

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee, which does not exceed the cost of reproduction, and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agency, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.